PUBLIC SAFETY PERSONNEL RETIREMENT SYSTEM
BOARD OF TRUSTEES MEETING

January 25, 2012

MINUTES

Mr. Brian Tobin, Trustee, Chairman
Mr. Gregory Ferguson, Vice Chairman, Trustee
Mr. Jeff McHenry, Trustee
Ms. Randie Stein, Trustee
Mr. Richard Petrenka, Trustee
Mr. Lauren Kingry, Trustee
Mr. Jim Hacking, Administrator
Mr. Ryan Parham, Assistant Administrator / Chief Investment Officer
Mr. Jared Smout, Deputy Administrator
Mr. Marty Anderson, Deputy Chief Investment Officer
Mr. Pascal Stalder, Deputy Chief Investment Officer – Risk
Mr. Anton Orlich, Senior Analyst
Mr. Paul Corens, Senior Investment Analyst
Mr. Mark Selfridge, Senior Investment Analyst
Mr. Shan Chen, Senior Analyst
Mr. Mark Steed, Senior Analyst
Ms. Michele Weigand, Senior Contracts Specialist
Mr. Dana David, Assistant Attorney General
Ms. Bridget Feeley, Internal Audit and Compliance Officer
Mr. Paul Hemmes, Training/Audio Visual Specialist
Mr. John Hendricks, Accounting Manager
Mr. Don Stracke, Senior Consultant, NEPC, Inc.
Mr. Tom Cawkwell, Albourne America, LLC
Mr. Marc Lieberman, Partner, Kutak Rock
Mr. John Kaites, Partner, Public Policy Partners
Mr. Doug Coles, Partner, HighGround
Mr. Corey Arvizu, Partner, Heinfeld, Meech & Co., P.C.
Mr. Mike Hoerig, Partner, Heinfeld, Meech & Co., P.C

1. Call to Order; Roll Call; Opening remarks ................................................. Mr. Brian Tobin .............................................................. Chairman

The Board of Trustees meeting was called to order by Chairman Tobin at 1:03 p.m.

2. Appropriate Action for approval of the Consent Agenda (documentation concerning the matters on the consent agenda may be reviewed at the PSPRS office). Any matter on the Consent Agenda will be removed from the Consent Agenda and discussed as a regular agenda item upon the request of any member of the Board of Trustees.

   a. Acceptance of Elected Officials' Retirement Plan of termination of early benefit Robert J. Adams
   b. Acceptance of Elected Officials' Retirement Plan of reinstatement of normal benefit of Jack M. Cross
   c. Acceptance of Elected Officials' Retirement Plan of survivor benefit of Bernice Gin
   d. Acceptance of Elected Officials' Retirement Plan of termination of normal benefit
e. Acceptance of Elected Officials’ Retirement Plan of termination of normal benefit of Joe B. Trejo
f. Acceptance of Elected Officials’ Retirement Plan of normal benefit of Linda Akers
g. Acceptance of Elected Officials’ Retirement Plan of normal benefit of Daniel A. Barker
h. Acceptance of Elected Officials’ Retirement Plan of normal benefit of Phillip Conklin
i. Acceptance of Elected Officials’ Retirement Plan of normal benefit of Robert Cox, Sr.
j. Acceptance of Elected Officials’ Retirement Plan of early benefit of Nancy Davis
k. Acceptance of Elected Officials’ Retirement Plan of termination of early benefit of Joe A. Falbo
l. Acceptance of Elected Officials’ Retirement Plan of termination of early split benefit of Joyce A. Falbo
m. Acceptance of Elected Officials’ Retirement Plan of early benefit of Philip Gordon
n. Acceptance of Elected Officials’ Retirement Plan of early benefit of Carolyn Holliday
o. Acceptance of Elected Officials’ Retirement Plan of early benefit of Patrick Irvine
p. Acceptance of Elected Officials’ Retirement Plan of termination of normal benefit of Felix C. Robles
q. Acceptance of Elected Officials’ Retirement Plan of normal benefit of Robert Walkup
r. Acceptance of Elected Officials’ Retirement Plan of early benefit of Anna Wayman-Trujillo
s. Acceptance of Elected Officials’ Retirement Plan of termination of early split benefit of Hettie Marie Wilcox
t. Acceptance of Transfer Between State Retirement Systems of Kenneth Holmes
u. Acceptance of Transfer Between State Retirement Systems of Joseph Kramer
v. Acceptance of Transfer Between State Retirement Systems of Brian Meek
w. Acceptance of Transfer Between State Retirement Systems of Garnet Copeland
x. Acceptance of Transfer Between State Retirement Systems of Mike Valencia
y. Acceptance of Transfer Between State Retirement Systems of Richard Hartson
z. Acceptance of Transfer Between State Retirement Systems of Paul Ellis
aa. Acceptance of Transfer Between State Retirement Systems of Lisa Ruggiero
bb. Acceptance of Transfer Between State Retirement Systems of Jack Hafer
cc. Acceptance of Transfer Between State Retirement Systems of Mark Enegren
dd. Acceptance of Transfer Between State Retirement Systems of Charles Herman, Jr.
e. Acceptance of Transfer Between State Retirement Systems of Daniel Campbell
ff. Acceptance of Transfer Between State Retirement Systems of Arnulfo Cuellar
gg. Acceptance of Transfer Between State Retirement Systems of James Walter Nelson
hh. Acceptance of Transfer Between State Retirement Systems of Gregory Carnicle
ii. Acceptance of Transfer Between State Retirement Systems of Kim Charrier
jj. Acceptance of Transfer Between State Retirement Systems of Angela Kwan
kk. Acceptance of Transfer Between State Retirement Systems of Judson Tomaiko
ll. Acceptance of Transfer Between State Retirement Systems of Clyde Fredin
mm. Acceptance of Transfer Between State Retirement Systems of Tim Woodward
nn. Acceptance of Transfer Between State Retirement Systems of David Glidewell
oo. Acceptance of Transfer Between State Retirement Systems of Joel M. Peterson
pp. Acceptance of Transfer Between State Retirement Systems of Cynthia Finley
Acceptance of Transfer Between State Retirement Systems of Guy Freeman
Acceptance of Transfer Between State Retirement Systems of Michael Ray
Acceptance of Transfer Between State Retirement Systems of Aaron Williams
Acceptance of Transfer Between State Retirement Systems of Amy Jones
Acceptance of Transfer Between State Retirement Systems of Timothy Palmer
Acceptance of Transfer Between State Retirement Systems of Michael Chavez
Acceptance of Transfer Between State Retirement Systems of Guillermo Garcia
Acceptance of Transfer Between State Retirement Systems of Gail Griffin
Acceptance of Transfer Between State Retirement Systems of Frank Hogland
Acceptance of Transfer Between State Retirement Systems of Miguel A. Sanchez
Acceptance of Transfer Between State Retirement Systems of Laura Dale
Acceptance of Transfer Between State Retirement Systems of Nathaniel Fuchs
Acceptance of Transfer Between State Retirement Systems of Nicole Molina
Acceptance of Transfer Between State Retirement Systems of Jillean Frakes
Acceptance of Transfer Between State Retirement Systems of Rickey Newberry
Acceptance of Transfer Between State Retirement Systems of John Dooley
Acceptance of Transfer Between State Retirement Systems of Brian Moore
Acceptance of Transfer Between State Retirement Systems of Douglas Santiago
Acceptance of Transfer Between State Retirement Systems of Matthew Paul Hoffman
Acceptance of Transfer Between State Retirement Systems of Gregory Houston
Acceptance of Transfer Between State Retirement Systems of Janis Joyce
Acceptance of Transfer Between State Retirement Systems of Elaine Alexander
Acceptance of Transfer Between State Retirement Systems of Robert Maschue
Acceptance of Transfer Between State Retirement Systems of Scott Masher
Acceptance of Transfer Between State Retirement Systems of Kenneth Russell

3. Appropriate Action regarding the Minutes of the November 30, 2011 meeting of the PSPRS Board of Trustees ........................................................., Mr. Brian Tobin

<table>
<thead>
<tr>
<th>MOTION: 1-72-12</th>
<th>At 1:05 p.m.</th>
</tr>
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<tbody>
<tr>
<td>Motion:</td>
<td>To approve the minutes of the November 30, 2011 meeting of the PSPRS Board of Trustees as presented.</td>
</tr>
<tr>
<td>Moved by:</td>
<td>Mr. Ferguson</td>
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<td>Seconded by:</td>
<td>Mr. McHenry</td>
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<tr>
<td>Discussion:</td>
<td>None</td>
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<tr>
<td>In Favor:</td>
<td>Unanimous</td>
</tr>
<tr>
<td>Motion:</td>
<td>Passes</td>
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Report by Mr. Richard Petrenka, Chairman of the Investment Committee regarding agenda items 4 through 10 which were discussed at the Investment Committee meeting held today, January 25, 2012, on or after 10:00 a.m., and possible Action on the Committee’s recommendations to the Board regarding same.

................................................................................, Mr. Mike Hoerig
................................................................................, Partner, Heinfeld, Meech & Co., P.C.
Messrs. Arvizu and Hoerig reported the audit was completed in October. The preparation and audit of the Comprehensive Annual Financial Report went smoothly with some minor cleanup. A description of the audit procedures included trend analysis versus achievements, making sure that the Mellon Book of Record balances those of PSPRS, a sample of the benefit calculations of the four plans, investment monitoring and evaluation, accuracy of the member database, and discussions with the actuary regarding the assumptions. Also discussed were the coming audit changes for 2012 which will be nothing of significance. In the coming years there will be more significant audit changes.

5. Status report regarding proposed 2012 legislation and possible Recommendations

Mr. Jim Hacking

Mr. John Kaite of Public Policy Partners reported the three main PSPRS proposed bills are moving through the process with good sponsors. SB 1115 is the investment contract bill regarding Iran/Sudan that is out of committee and rules. SB 1116 is being read in the Committee of the Whole tomorrow regarding changes to break in service from 60 days to one year. HB 2078 permitting the Board of Trustees to enter into contracts with the Administrator and Assistant Administrators is out of committee and awaiting a hearing in Rules Committee. Three other bills affect the System, but we remain neutral regarding SB 1120, SB 1211 and HB 2824.

Mr. Cole stated that shortly the vacancy on the Board of Trustees for the seventh member will soon be filled. We will be working with stakeholders regarding legislative issues.

Mr. Hacking added that we listen to feedback from the leadership of our principal employers and constituents regarding legislative proposals. A meeting will be held with them on January 31, 2012 about the proposed legislation and the FY 2011 financial results.

6. Report by Investment Department Staff and discussion regarding the Month Ended and Fiscal Year-to-Date performance/portfolio with an overview of the Public Equities asset class

Mr. Anton Orlich

Lead Investment Analyst

It was reported by Mr. Orlich that in December the Trust grew by 16 basis points (bps) on an absolute basis. The Trust benchmark grew by 53 bps so that there was an underperformance of 53 bps. Private Equity grew by 1.23% or 34 bps more than the benchmark and GTAA appreciated by 1.12%. The largest decline was (-1.75%) in International Equities due to timing of the transactions which caused a better performance in November. The second biggest decliner was (-1.19%) in real assets.

For the Fiscal Year-to-Date, the portfolio is down (-3.39%) as compared to the benchmark which is down (-2.22%) resulting in a (-1.17%) underperformance for the first half of the fiscal year. International Equities are down (-16.92%) as compared to the benchmark which is down (-16.87%). Fixed income is up 2.68% as compared to the benchmark which is up 4.98%. On an absolute basis the strongest performance is in GTAA up 4.91% for the greatest source of out-performance.

Mr. Orlich compared the portfolio of the past beginning with September 2007 and compared to where it was on December 31, 2011. A discussion was held regarding where the portfolio may go in the future and the top ten investments as of December 2011 were listed and discussed.
7. Presentation by Investment Department Staff, NEPC, LLC representatives and discussion and possible Action regarding an investment of up to $70 million in a separately managed account in the Eagle Small Cap Growth Strategy and/or affiliated strategies managed by Eagle Asset Management. Mr. Anton Orlich Mr. Don Stracke Senior Consultant, NEPC, LLC

Mr. Orlich indicated Staff likes Eagle Asset Management due to the extent of their analysts' experience, the discipline of their work products and research, the proprietary screens they use that allow the research teams to focus on investment opportunities. Mr. Stracke added this team actively manages small cap U.S. equities. Staff and NEPC like their due diligence methods, their teams and their managers. They have done well in up markets and even better in down markets.

MOTION: 1-73-12 At 1:56 p.m.
Motion: To accept the Recommendation of the Investment Committee to invest up to $70 million in a separately managed account in the Eagle Small Cap Growth Strategy and/or affiliated strategies managed by Eagle Asset Management.
Moved by: Mr. Petrenka
Seconded by: Mr.
Discussion: None
In Favor: Unanimous
Motion: Passes

8. Presentation by Investment Department Staff, Albourne America, LLC representatives and discussion and possible Action regarding an investment of up to $30 million in Energy Recapitalization and Restructuring Fund. L.P., or appropriate feeders, blockers, or associated or parallel funds of same managed by Parallel Resource Partners, LLC.

Mr. Paul Corens Senior Investment Analyst 
Mr. Tom Cawkwell Albourne America, LLC

Energy Recapitalization and Restructuring Fund, L.P. is a joint venture between Carlson Capital and Parallel Resource Partners to manage companies involved in exploration and production of U.S. oil and gas. Small production companies in financial and operational distress due to dried up lending are the focus of this joint venture stated Mr. Corens.

Mr. Cawkwell added that Energy Recapitalization and Restructuring Fund has good sustainable alpha outperformance capabilities, good absolute return expectations, and good diversification and inflation protection for the PSPRS portfolio. This is one of the best specialist groups and they are very smart regarding their strategies in a cyclical industry with handling possible headline risks regarding the negative publicity surrounding fracking. With their expert strategies, deep knowledge and experience, there is strong support for this financial commitment.
MOTION: 1-74-12  At 2:10 p.m.
Motion: To accept the Recommendation of the Investment Committee to invest up to $30 million in Energy Recapitalization and Restructuring Fund, L.P., or appropriate feeders, blockers, or associated or parallel funds of same managed by Parallel Resource Partners, LLC.
Moved by: Mr. Petrenka
Seconded by: Mr.
Discussion: None
In Favor: Unanimous
Motion: Passes

9. Presentation by Investment Department Staff and discussion and possible Recommendation to reduce the remaining unfunded capital commitment of the Trust to ApexCapital Fund 1, LLC from $190,373,756 and ApexCapital Fund 2, LLC from $129,289,821 to a total of $10 million for the combined assets. Moved by: Mr. Petrenka
Seconded by: Mr.
Discussion: None
In Favor: Unanimous
Motion: Passes

Mr. Parham stated we wish to reduce the remaining unfunded capital commitment to Apex Capital Fund 1 and Fund 2 to a total of $10 million since these are now 100% owned by PSPRS. When these funds were originally approved, the total commitment to them exceeded $300 million and we have shut down this strategy since it began to fail in 2007 market conditions. We recently terminated the manager ApexCapital. Since these investments are now owned by PSPRS, the legal documents that control these funds leave the committed amounts as stated and we think that $10 million will be sufficient to maintain these assets for repositioning them for sale in better market conditions. This is a prudent and almost ministerial action.

MOTION: 1-75-12  At 2:13 p.m.
Motion: To accept the Recommendation of the Investment Committee to reduce the remaining unfunded capital commitment of the Trust to ApexCapital Fund 1, LLC from $190,373,756 and ApexCapital Fund 2, LLC from $129,289,821 to a total of $10 million for the combined assets.
Moved by: Mr. Petrenka
Seconded by: Mr.
Discussion: None
In Favor: Unanimous
Motion: Passes

10. Presentation by Investment Department Staff and discussion and possible Recommendation regarding amending the Limited Partnership Agreement of ORG AZ Secondary Opportunity Fund to allow that Fund to invest in co-investments as well as secondary opportunities in Real Estate and Real Assets. Moved by: Mr. Petrenka
Seconded by: Mr. Marty Anderson
Discussion: None
In Favor: Unanimous
Motion: Passes

The presentation by Mr. Anderson explained this partnership will permit us to take advantage of other institutions that want to sell their interest which we could then purchase at a discount thus providing liquidity to other limited partners. For this we would extract our discount. We propose creating the ability for the fund to co-invest with existing managers.
regarding attractive deals. There is $30 million of uncommitted capital and Staff would like permission to go ahead with these opportunities. Staff and ORG will perform due diligence for these secondary opportunities in which to co-invest side-by-side in underlying assets.

**MOTION: 1-76-12** At 2:19 p.m.

**Motion:** To accept the Recommendation of the Investment Committee regarding amending the Limited Partnership Agreement of ORG AZ Secondary Opportunity Fund to allow that Fund to invest in co-investments as well as secondary opportunities in Real Estate and Real Assets

**Moved by:** Mr. Petrenka

**Seconded by:** Mr.

**Discussion:** None

**In Favor:** Unanimous

**Motion:** Passes

It was explained by Mr. Steed that PSPRS wishes to redeem the assets of its Capital Account and other partnership interests from Waterstone Market Neutral Offshore Fund Ltd. which is in the credit opportunity portfolio with expertise in convertible bonds. In the last two years, Staff has had on-going discussions with them and the opportunity set going forward does not favor Waterstone’s area of expertise. We request a full redemption from them of approximately $45 million.

**MOTION: 1-77-12** At 2:23 p.m.

**Motion:** To accept the Recommendation of the Investment Committee for redemption of assets (liquidation of its Capital Account and other partnership interests) from Waterstone Market Neutral Offshore Fund Ltd.

**Moved by:** Mr. Petrenka

**Seconded by:** Mr.

**Discussion:** None

**In Favor:** Unanimous

**Motion:** Passes

**11.** Presentation by Investment Department Staff and Albourne America, LLC and discussion and possible Action regarding the possible redemption of assets (liquidation of its Capital Account and other partnership interests) from Waterstone Market Neutral Offshore Fund Ltd.

It was explained by Mr. Steed that PSPRS wishes to redeem the assets of its Capital Account and other partnership interests from Waterstone Market Neutral Offshore Fund Ltd. which is in the credit opportunity portfolio with expertise in convertible bonds. In the last two years, Staff has had on-going discussions with them and the opportunity set going forward does not favor Waterstone’s area of expertise. We request a full redemption from them of approximately $45 million.

**MOTION: 1-77-12** At 2:23 p.m.

**Motion:** To accept the Recommendation of the Investment Committee for redemption of assets (liquidation of its Capital Account and other partnership interests) from Waterstone Market Neutral Offshore Fund Ltd.

**Moved by:** Mr. Petrenka

**Seconded by:** Mr.

**Discussion:** None

**In Favor:** Unanimous

**Motion:** Passes

**12.** Presentation by Investment Department Staff and the Compliance Officer and discussion regarding investment management fees and a possible Action concerning amendment of the PSPRS Amended and Restated Statement of Investment Policies to clarify that, to promote uniformity among the Trust's investments, all policies set forth in the Amended and Restated Statement of Investment Policy, whenever adopted, shall apply retroactively to all existing investments, including those authorized before the date such policies became effective, unless the trustees direct otherwise.

It was explained by Mr. Petrenka that the Trust wishes to redeem the assets of its Capital Account and other partnership interests from Waterstone Market Neutral Offshore Fund Ltd. which is in the credit opportunity portfolio with expertise in convertible bonds. In the last two years, Staff has had on-going discussions with them and the opportunity set going forward does not favor Waterstone’s area of expertise. We request a full redemption from them of approximately $45 million.
The description of this situation was given by Mr. Parham who stated when we began moving into alternative investments, the Board approved an initial investment of, for example, $40 million. The question then arose of what to do with the management fees. Is the $40 million net the number to be invested? If that is the case, we had to go back and estimate the management fees over the 10 year life of the fund which, in a couple of cases, we did. It was determined that most of our peers dealt with this in a more clean cut manner which was to say that when a board approved an equity investment, it was understood there would be management fees above and beyond that amount consistent with the contracts. In a couple of instances, when we made investments, we enacted a policy revision that said the management fees are outside of the committed capital. The Compliance Officer noted that the motion by the Board of Trustees did not specifically apply retroactively to those earlier investments. We ask the Board to acknowledge that this particular policy revision does not apply retroactively to the change in management fees and for guidance in future policies to specify whether a policy is to be considered retroactively.

**MOTION: 1-78-12**  
At 2:30 p.m.

**Motion:** To accept clarification that, with reference to Public Safety Personnel Retirement System Amended and Restated Statement of Investment Policies section V(3) “Investor Borne Management Fees”, this section V(3) shall apply retroactively to all existing investments, including those authorized before the date the policy became effective. Furthermore, for future additions or amendments to the investment policy, each motion will include reference as to whether a policy is to be considered retroactive.

**Moved by:** Mr. Ferguson  
**Seconded by:** Mr. McHenry  
**Discussion:** None  
**In Favor:** Unanimous  
**Motion:** Passes

13. Status report by Investment Department Staff regarding the redemption of assets (liquidation of its Class C and other limited partnership interests) from Bluegold Global Fund L.P. Mr. Paul Corens

Mr. Corens reported as of December 2011 we are fully out of the fund.

14. Report by Investment Department Staff representatives and discussion regarding due diligence of Neuberger Berman Small Cap Intrinsic Value Strategy and/or its manager Neuberger Berman Mr. Anton Orlich

It was stated as a result of the Staff’s due diligence it was prudently determined to not fund this investment at this time. We will report back to the Board prior to investing in Neuberger Berger Small Cap Intrinsic Value Strategy and/or its manager Neuberger Berman or develop a relationship with another manager if more than a few months go by.

15. Report by Investment Department Staff representatives and discussion regarding Risk Mr. Pascal Stalder

In order to reduce risk, a large amount of diversification has occurred since September
2007 to December 2011. Performance in each asset class for each period, an analysis of allocation and risk for October 2011 back to June 2006, and the top ten investments as of December 2011 were discussed with the Board of Trustees. There is a significant amount of liquidity built into the System with 54.1% of the portfolio in the top ten investments and 40% of the portfolio in private and public equities.

16. Report by the System’s Internal Audit and Compliance Officer and discussion regarding investment compliance, holdings and transactions as of December 31, 2011

Ms. Bridget Feeley

Ms. Feeley said two issues have been presented and discussed for the last six months. There is an exception to the asset allocation in real estate with the portfolio in real estate being 12.88% with 12% as the upper boundary. Mr. Parham stated that forcing sales of real estate at this time is imprudent and over time we will be able to write down assets and work with our partners to resolve this situation creatively.

The second issue is that the fixed income allocation is over the 5% threshold. Mr. Parham stated this is due to an attractive investment that is paying well. Over time, the internally managed fixed income portfolio will get smaller. We expect, in the future, to have a policy fix for this situation and not to mechanistically sell at this time to come into compliance with the policy due to the attractive investment.

Presentation by Mr. Gregory Ferguson, Chairman of the Operations, Governance Policy and Audit Committee regarding agenda items 15 through 22 which were discussed at the Operations, Governance Policy and Audit Committee meeting held today, January 25, 2012, on or after 11:00 a.m., and possible Action on the Committee’s recommendations to the Board regarding same.

17. Presentation of the Month-to-Date Budget Report for FY 2011 and possible Action on same

Mr. John Hendricks

Mr. Ferguson stated the budget is presented in the materials that were sent to the members of the Board of Trustees and no action is required.

18. Status report on the filling of vacant staff positions

Mr. Jim Hacking

Only one position remains open, that of in-house legal counsel.

19. Written update on the progress of the Local Board Training Program and discussion and possible Action regarding the same

Mr. Robert Ortega

Mr. Ferguson indicated Mr. Ortega’s written report is in the materials sent to the members of the Board of Trustees.

20. Review, discussion and possible Action regarding the December 2011 and January 2012 Kutak Rock (and other law firm) bills for legal services performed in November and December 2011, respectively

Mr. Jim Hacking
**MOTION: 1-79-12**  
At 3:04 p.m.  
Motion: To pay the December 2011 and January 2012 Kutak Rock (and other law firm) bills for legal services performed in November and December 2011, respectively.  
Moved by: Mr. Ferguson  
Seconded by: Mr.  
Discussion: None  
In Favor: Unanimous  
Motion: Passes

**MOTION: 1-80-12**  
At 3:08 p.m.  
Motion: To accept the Recommendation of the Operations, Governance Policy and Audit Committee that the interest rate applied to the refund of member contributions for Tier 1 [ARS §§ 38-846.02(B), 38-884(D), and 38-804(C)] and Tier 2 [ARS §§ 38-846.02(C), 38-884(E), and 38-804(D)] members of PSPRS, CORP and EORP be set at 3%.  
Moved by: Mr. Ferguson  
Seconded by: Mr.  
Discussion: None  
In Favor: Unanimous  
Motion: Passes

**MOTION: 1-81-12**  
At 3:09 p.m.  
Motion: To accept the Recommendation of the Operations, Governance Policy and Audit Committee that the refund policy for which a member would normally fall under to applied to those members who forfeit their service in accordance with ARS § 13-713(A).  
Moved by: Mr. Ferguson  
Seconded by: Mr.  
Discussion: None  
In Favor: Unanimous  
Motion: Passes

Mr. Ferguson reported that Ms. Feeley has developed a written report regarding the internal audit examination and procedures and there was nothing to report regarding compliance.

22. Discussion and possible Action on setting interest rates applicable to contribution refunds, transfers of service credits, forfeitures due to felonies, and other circumstances in which interest may be charged by the Plans. Mr. Jared Smout, Deputy Administrator
MOTION:  1-82-12  At 3:10 p.m.
Motion: To accept the Recommendation of the Operations, Governance Policy and Audit Committee that the interest rate applied to the transfer of service credits in accordance with ARS § 38-924(B)(1) be set at the same rate which is applied to refunds of member contributions (currently set at 3%).
Moved by: Mr. Ferguson
Seconded by: Mr.
Discussion: None
In Favor: Unanimous
Motion: Passes

23. Discussion and possible Action on optional forms of retirement benefits available to members of the Elected Officials' Retirement Plan (EORP) members

MOTION:  1-83-12  At 3:11 p.m.
Motion: To accept the Recommendation of the Operations, Governance Policy and Audit Committee that EORP members hired after January 1, 2012 be allowed to select an option at retirement which pays the survivor 75% of the deceased member’s pension in exchange for an actuarial reduced pension benefit.
Moved by: Mr. Ferguson
Seconded by: Mr.
Discussion: None
In Favor: Unanimous
Motion: Passes

24. Presentation, discussion and appropriate Action regarding options for fiduciary insurance for the PSPRS Board of Trustees

Mr. Lieberman stated that most risks are self insured by our System or by ADOA. A number of risks are not covered by the state such as acts outside the scope of authority or employment, punitive damages, breach of contract, and defense costs prior to the time ADOA determines you will be covered for your defense. The questions are can coverage by a private insurance company be obtained, what is the cost and what is the amount of coverage. It is suggested we contact a fiduciary insurance broker for public boards in order to answer these questions.

Staff is directed to look into fiduciary insurance and report back to the Board.

25. Review, discussion and appropriate Action regarding Board of Trustee and Committee duties

A report was presented by Ms. Feeley which included discussion regarding needed revisions to our Operations, Governance Policy and Audit Committee and Investment Committee duties.
25.a. Discussion and appropriate Action regarding Board of Trustee member requests to participate in training, educational and due diligence opportunities ............................................................ Mr. Brian Tobin

There were no requests.

26. Discussion and appropriate Action regarding the proposed contract with NEPC which expired October 23, 2011 ................................................................. Mr. Ryan Parham

Mr. Marc Lieberman

All that is missing, stated Mr. Lieberman, is Mr. Hacking’s signature for which he has been previously authorized.

26.a. Review, discussion and appropriate Action regarding the annual review of the performance of the Administrator James Hacking by the Board of Trustees and Appropriate Action regarding same ......................................................... Mr. Brian Tobin

27. Discussion and Recommendation regarding the filling of the position of In-house Investment Counsel ................................................................. Mr. Jim Hacking

To be discussed in Executive Session.

28. Discussion and consultation with legal counsel and Staff regarding ongoing, contemplated or threatened legal action involving the Plans, including vendor disputes, public record requests, personnel matters and actual or potential litigation and claims based on contract, tort or statute, including matters involving Bank of America, BNY Mellon, judges Thompson and Hall, retired judges Fields and Lankford, Huggins, retired police officers Rappleyea and Everson, Cross, Martin, the Pivotal Group, APEX Capital Management 1, U.S. Bank, the Seldins, and Stroh Ranch Development. The Board may vote to discuss these matters in Executive Session pursuant to A.R.S. §§ 38-431.03(A)(1), (2), (3), (4) and (7) as set forth in item 29.

MOTION: 1-84-12 At 4:42 p.m.

Motion: To recess Open Session and enter Executive Session for agenda items 26a, 27, 28, 29.

Moved by: Ms. Stein

Seconded by: Mr. McHenry

Discussion: None

In Favor: Unanimous

Motion: Passes

29. The Board of Trustees may vote to go into Executive Session (which will not be open to the public) to discuss matters pursuant to A.R.S. §§ 38-431.03(A) (1), (2), (3), (4) and (7), as applicable, including to obtain legal advice from the Board’s attorney on any matter listed on the agenda, including:

a. Discussion regarding the annual review of the performance of the Administrator James Hacking by the Board of Trustees and Appropriate Action regarding same.

b. Discussion regarding the filling of the position of In-house Investment Counsel.
c. Status report from Ben Cooper of Steptoe & Johnson LLP regarding the three (3) lawsuits challenging provisions of Senate Bill 1609.

d. Discussion with Michael Sillyman of Kutak Rock LLP regarding the settlement offer in the John Martin v. Corrections Officers Retirement Plan lawsuit.

e. Discussion with legal counsel (and possible recommendation to the Board of Trustees) about legal developments, claims and issues (including settlement discussions) involving investment-related public record requests as well as the Plans’ contracts and investments, including legal matters concerning the Plans’ custodians, lenders, securities lending agents, investment contracts, vendors, advisors, investment managers or joint venturers (as well as any investments managed by the Plans’ investment managers or joint venturers). The Board may vote to discuss these matters, wholly or in part, in Executive Session pursuant to A.R.S. §§ 38-431.03(A) (2), (3), (4) & (7). Matters discussed may include claims or potential claims by or against (or issues concerning) Bank of America, BNY Mellon, Stroh Ranch Development, The Pivotal Group, Apex Capital Management 1, U.S. Bank and/or Millard and Scott Seldin.

f. Discussion and consultation with legal counsel and Staff regarding ongoing or threatened legal action involving the Plans, including internal investigations, public record requests, and actual or potential litigation and claims based on contract, tort or statute, including those involving Huggins, Cross, Martin, judges Thompson and Hall, retired judges Fields and Lankford, and retired police officers Rappleyea and Everson, pursuant to A.R.S. §§ 38-431.03(A) (2), (3) and (4).

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<tr>
<th>MOTION: 1-85-12</th>
<th>At 5:30 p.m.</th>
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<tr>
<td>Motion:</td>
<td>To resume Open Session. Regarding the annual review of Mr. Hacking, no action is required. Regarding filling the position of in-house legal counsel, we direct the Administrator to follow through with the action discussed in Executive Session. Mr. Hacking is directed to pursue the settlement of the Martin case as directed in Executive Session.</td>
</tr>
<tr>
<td>Moved by:</td>
<td>Ms. Stein</td>
</tr>
<tr>
<td>Seconded by:</td>
<td>Mr. McHenry</td>
</tr>
<tr>
<td>Discussion:</td>
<td>None</td>
</tr>
<tr>
<td>In Favor:</td>
<td>Unanimous</td>
</tr>
<tr>
<td>Motion:</td>
<td>Passes</td>
</tr>
</tbody>
</table>

30. Call to the Public

This is the time for the public to comment. Members of the Board of Trustees may not discuss items that are not specifically identified on the agenda, except to address criticism from the public. Therefore, pursuant to A.R.S. § 38-431.01(H), the Board of Trustees’ reaction to any public comment is limited to addressing criticism or recommending that the Board of Trustees or Staff respond or study such comment or schedule the subject matter for further consideration at a later date after appropriate notice.

No members wished to speak.

31. Set the next meeting date. (Currently scheduled for Wednesday, February 29, 2012.)
32. Adjournment

The meeting was adjourned at 5:32 p.m.

______________________________
Brian Tobin, Chairman

______________________________  ______________________________
Gregory Ferguson, Trustee, Vice Chairman  Randie A. Stein, Trustee

______________________________  ______________________________
Jeff Allen Mc Henry, Trustee  Richard J. Petrenka, Trustee

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Lauren Kingry, Trustee